Nos. 86-495, 86-624, and 86-625

IN THE

Supreme Court of the United States

OCTOBER TERM, 1986

THE UNITED STATES OF AMERICA,
K MART CORPORATION, and
47TH STREET PHOTO, INC.,
Petitioners,

v.

COALITION TO PRESERVE THE INTEGRITY OF
AMERICAN TRADEMARKS, CARTIER, INC., and
CHARLES OF THE RITZ GROUP, LTD.,
Respondents.

On Writs of Certiorari to the United States Court of Appeals for the District of Columbia Circuit

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AMICUS CURIAE BRIEF OF DURACELL INC. IN SUPPORT OF RESPONDENTS

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STATEMENT OF INTEREST

Duracell Inc. ("Duracell") is a U.S. (Delaware) corporation and wholly-owned subsidiary of Kraft, Inc., also a U.S. (Delaware) corporation, and is a member of the Coalition to Preserve the Integrity of American Trademarks ("COPIAT").[1] In the United States, Duracell

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[1] All parties have consented to Duracell filing an amicus curiae brief. Duracell has submitted these consents to the Clerk.

employs more than 4,000 workers in nine states to manufacture and distribute, under the U.S. DURACELL trademark, alkaline batteries that are specifically geared to the American consumer. Duracell's position illustrates clearly the erroneous premise, upon which respondents and supporting amici base their assertions, that the regulations at issue here affect only foreign manufacturers and do not harm domestic corporations. Duracell is a domestic corporation and manufacturer who has long been adversely affected by gray market trade.

1. Duracell's early efforts to protect its goodwill as a domestic manufacturer

Duracell has spent hundreds of millions of dollars advertising and promoting its brand in the United States and developing the domestic goodwill that U.S. consumers associate with the DURACELL mark.[2] In early 1982, Duracell became aware that unauthorized importers were selling in this country foreign-made DURACELL batteries designed for sale in Europe. Duracell does not intend, sponsor or authorize the importation for sale of these foreign-made alkaline DURACELL batteries into the United States. Foreign DURACELL batteries, manufactured abroad by Duracell affiliates, bear DURACELL trademarks with foreign registrations and are intended for distribution and sale only in foreign markets served by such affiliates.

With the rising strength of the dollar in the early 1980s, importers found it profitable to purchase foreign DURACELL batteries from foreign customers of Dura-

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[2] Duracell is the exclusive owner of the DURACELL trademark as well as THE COPPER TOP BATTERY trademark and the copper and black color combination on the battery jacket. Duracell's emphasis of those marks in its extensive broadcast (television and radio) and print (magazine and newspaper) advertising campaigns has created a strong association by U.S. consumers of the marks with a reputation for batteries that are long lasting and dependable.

cell and then import and distribute them in this country.[3] (Even as the dollar fluctuates in strength today, there are still opportunities for currency arbitrage which makes it profitable for gray marketers to continue this practice; for example, the dollar is today relatively strong against the Mexican peso, Italian lira, and Canadian dollar.) Duracell has thousands of customers throughout Europe alone; it is impossible to monitor the movement of DURACELL batteries in such a market. Duracell is and has been greatly concerned about this problem, particularly because its reputation for high-quality fresh *American-made* batteries with complete English language warnings, instructions, and guarantees is endangered by importers and distributors over whom it has no control. Duracell has, however, been unable to resolve the problem because of the regulations at issue here.

In 1983, Duracell attempted to block the unauthorized imports by filing its registered U.S. trademark DURACELL with the U.S. Customs Service pursuant to section 526 of the Tariff Act of 1930, 19 U.S.C. § 1526 ("section 526"). The Customs Service informed Duracell that it would not exclude imports of products bearing the DURACELL trademark that were manufactured by Duracell's foreign subsidiaries, citing 19 C.F.R. § 133.1 ("the Treasury regulations").

Duracell next tried to enforce its trademark rights in private actions. This proved to be difficult, expensive and very time consuming. It was impossible for Duracell to identify all of the importers and distributors as they do not obtain the batteries directly from Duracell's affiliates but, rather, purchase them through a sometimes lengthy chain of middlemen. Initially, Duracell did file suits against two importers in federal district court in the Southern District of New York. Those suits were settled

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[3] *See In re Certain Alkaline Batteries*, 225 U.S.P.Q. 823, 826 (U.S.I.T.C. 1984).

when the two named importers agreed to stop importing the foreign DURACELL batteries. The settlements in no way stemmed the tide, however, as other importers more than picked up the slack. Furthermore, one of these importers has reneged on his agreement, forcing Duracell to expend more time and money pursuing a civil contempt order.

2. *In re Certain Alkaline Batteries*

To protect its trademarks, its business reputation, and U.S. consumers, Duracell next approached the International Trade Commission ("ITC") because section 337 of the Tariff Act of 1930, 19 U.S.C. § 1337, authorizes that agency to exercise *in rem* jurisdiction and to issue a general exclusion order that can operate against all imports. Duracell believed its case to be well suited to that forum because it could meet the stringent standard of proof required. With Duracell as complainant and 14 importers as respondents, the ITC embarked on an investigation that lasted over a year. Extensive discovery was taken and a week-long evidentiary hearing took place before an administrative law judge who issued an initial determination, based on his findings of fact and conclusions of law, in Duracell's favor. A hearing before the entire Commission was held in October 1985 and included argument on behalf of the Treasury Department, K mart Corporation, 47th Street Photo and a number of amici in this case.

The ITC unanimously concluded that imports of foreign DURACELL batteries constitute unfair competition and violate section 337. *In re Certain Alkaline Batteries*, 225 U.S.P.Q. 823 (U.S.I.T.C. 1984).[4] The agency issued a general order excluding all foreign DURACELL batteries from entry into the United States. *Id.* at 839.

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[4] As to the application of section 526 to imports of foreign DURACELL batteries, the ITC ruled by a 4-1 majority that such imports do not violate section 526. 225 U.S.P.Q. at 832; *but see id.* at 841-42 (additional views of Vice Chairman Liebeler).

Duracell had conclusively proven that it is a U.S. industry, efficiently and economically operated, which is being substantially injured by the importation and sale of foreign DURACELL batteries that infringe Duracell's U.S. trademark and misappropriate its trade dress. The trademark infringement conclusion was twofold: foreign DURACELL batteries violate the trademark territoriality principle as a matter of law and create a likelihood of confusion with domestic DURACELL batteries as a matter of fact. *Id.* at 826-32, 834-37. Additionally, the ITC found that the public interest favored imposition of the exclusion order. *Id.* at 840-41. In this latter regard, Duracell proved that *no part of the importers' savings in gray market DURACELL batteries is passed on to U.S. consumers.* *Id.* at 826 and n.10.

The ITC exclusion order was referred to President Reagan pursuant to section 337's mandatory review provision. The President disapproved the order, relying on two stated reasons: (1) the ITC order was inconsistent with Treasury regulations and (2) his Cabinet Council on Commerce and Trade was reviewing data "with a view toward formulating a cohesive [gray market] policy." 50 Fed. Reg. 1,655 (January 11, 1985), *reprinted in* 225 U.S.P.Q. 862.[5]

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[5] Duracell appealed the disapproval to the United States Court of Appeals for the Federal Circuit, contending that the President exceeded the authority section 337 delegated him. Section 337 permits the President to disapprove an ITC order "for policy reasons." 19 U.S.C. § 1337(g). Duracell argued that the President disapproved its exclusion order because he disagreed with the ITC's legal conclusion that gray market DURACELL batteries could constitute unfair competition. The President, however, may not disapprove a § 337 determination on legal grounds. S. Rep. No. 1298, 93d Cong., 2d Sess. 199, *reprinted in* 1974 U.S. Code Cong. & Ad. News 7186, 7331-32; *Young Engineers, Inc. v. U.S.I.T.C.*, 721 F.2d 1305, 1313 (Fed. Cir. 1983). The Federal Circuit held that it had no jurisdiction over Duracell's appeal and, in the alternative, that it would accept the President's statement that he had disapproved pursuant to section 337(g). *Duracell Inc. v. U.S.I.T.C.*, 778 F.2d 1578 (Fed. Cir. 1985).

Duracell supports respondents' contention that the Treasury regulations are an invalid interpretation of section 526 (and section 42 of the Lanham Act, 15 U.S.C. § 1124) and unlawfully restrict the scope of that statute. Duracell believes that presentation of its position as a U.S. manufacturer substantially injured by gray market trade will help the Court resolve the questions presented by the parties.

SUMMARY OF ARGUMENT

1. The Treasury regulations adversely affect American manufacturers like Duracell who employ U.S. workers by discouraging domestic production.

2. The Treasury regulations are not reasonably related to section 526 because they contravene the statute's plain language and deny protection to American manufacturers like Duracell who undisputedly belong to the intended protected class.

3. The Treasury regulations must be invalidated because they contravene section 526 and cannot be justified as merely an enforcement policy of the Customs Service. Judicial enforcement of section 526 on a case-by-case basis would be futile and burdensome.

4. The gray market in foreign DURACELL batteries, which discourages U.S. production and U.S. investment, does not benefit consumers who pay the same price for a foreign DURACELL battery as for a domestic DURACELL battery. Restrictions on the gray market present no antitrust problem.

5. The Administration's "ongoing policy review" does not militate against judicial resolution of the validity of the Treasury regulations because the regulations have a present, concrete, and adverse impact. Further the "policy review" has been pending for some time and there are no indications that a conclusion is forthcoming.

ARGUMENT

I. THE DEPARTMENT OF TREASURY REGULATIONS ADVERSELY AFFECT DOMESTIC MANUFACTURING OPERATIONS

A. Petitioners Err When They Assert That The Treasury Regulations Affect Only Foreign Corporations

Petitioners consistently aver that the Treasury regulations' "related parties" exception to section 526 restricts only "foreign" corporations. That is an inaccurate portrayal of the scope of those regulations.

A review of petitioners' remarks demonstrates that the primary basis for this position is their presumption that U.S. industry is not affected by gray market importations pursuant to the Treasury regulations. The government argues that "Congress did not intend to create a mechanism to help foreign or multinational firms enforce exclusive U.S. distribution arrangements." Brief for the Federal Petitioners at 8. Petitioner 47th Street Photo, Inc. advocates that section 526 "require[s] something more than the creation by a foreign corporation of an American shell." Brief for 47th Street Photo, Inc. at 6. And, finally K mart Corporation broadly claims that this case is about foreign companies—"[i]t is not about protecting American manufacturing industries." Brief for K mart Corporation at 7.

Both K mart and 47th Street Photo focus on the court of appeals' omission of certain words from the conference report on the 1922 enactment of section 526. They emphasize that the conference report states section 526 makes "such importation unlawful without the consent of the owner of the American trademark in order to protect the American manufacturer or producer." H.R. Rep. No. 1223, 67th Cong., 2d Sess. 158 (1922) *quoted in* Brief of 47th Street Photo at 47 and Brief of K mart at 20. Yet it is just such protection of the American manufacturer—a rationale upon which petitioners agree

Congress premised section 526—that the regulations at issue deny to Duracell and similarly-situated trademark owners.[6]

B. Duracell, By Any Standard, Is An American Manufacturer

Duracell Inc. is a U.S. (Delaware) corporation. Far from a "shell" created by a foreign company, Duracell employs more than 4,000 workers in nine states to manufacture and distribute alkaline batteries designed especially for U.S. consumers. As the International Trade Commission found, every sale of a gray market DURACELL battery is a lost sale for Duracell's U.S. operations. 225 U.S.P.Q. at 838. Thus, the continued importation of gray market DURACELL batteries will result in further substantial injury to Duracell as an American manufacturer.[7] Certainly, Duracell could relocate abroad its U.S. manufacturing operations to attempt to benefit from lower production costs. Such a development, however, highlights the irony that results from petitioners' position that the Treasury regulations must be upheld. That Duracell has subsidiaries selling overseas batteries that are manufactured overseas should not affect the status of Duracell's U.S. manufacturing operations. It has been Duracell's long held business policy to manufacture its batteries in the locales in which they are to

[6] Other American corporations with U.S. manufacturing operations, some of which are also filing amicus briefs in this case, are affected by unauthorized imports. The term "parallel imports" used by petitioners is a misnomer in cases such as Duracell's. The gray market goods are not parallel imports because they are the only imports—there are no authorized imports. Sales of gray market goods displace sales of American-made goods, not other foreign goods.

[7] Additionally, Duracell's goodwill which associates the DURACELL mark with fresh quality American-made goods is endangered by the sale of gray market DURACELL batteries whose shipping to and handling in this country are out of Duracell's control.

be sold. Duracell should not be penalized for that decision.

Duracell's position as an American manufacturer unable to invoke the protections of section 526 because of the challenged regulations illustrates the flaw in petitioners' analysis. Petitioner 47th Street Photo contends the regulations ought to stand because they effect the intent of Congress that the party invoking section 526 be "both an American corporation and a domiciliary of the United States." Brief of 47th Street Photo at 19. Duracell is undeniably "both" yet the Treasury regulations deny Duracell the lawful protection to which it is entitled.

II. THE DEPARTMENT OF TREASURY REGULATIONS ARE NOT REASONABLY RELATED TO SECTION 526

A. Even If Section 526 Were Intended To Protect American Manufacturers Only, The Regulations Deny That Protection

Section 526 clearly prohibits the importation of foreign-made merchandise bearing a registered trademark owned by a U.S. citizen and domiciliary without written consent of the trademark owner. Implicitly admitting that the Treasury regulations contravene the plain and unambiguous statutory language, petitioners contend primarily that the regulations are valid as being reasonably related to the intent of Congress to protect American industry. In particular, petitioners seem to suggest that through the regulations, Customs implements a flexible enforcement policy that reasonably tailors section 526 enforcement to the facts of each case.

This is emphatically neither the intent nor the result of the Treasury regulations. The regulations blanketly deny section 526 protection in any case where the U.S. trademark owner is in any way related to the foreign

manufacturer. As Customs' denial of protection to Duracell establishes, even when an American manufacturer requests enforcement of section 526—a request from the party specifically entitled to relief under petitioners' analysis—Customs will automatically deny relief. There is no hearing to determine the merits of the case, no examination of whether the regulations as applied will carry out the statute's intent. In short, there is no flexible policy but, rather, an unbending adherence to regulations which contravene the statute's plain words and even, as defined by any party, the statutory intent.

B. In Any Event, Section 526 Should Be Construed As It Is Written

Statutory language that is plain and unambiguous is conclusive. In such a case, rules of construction are not applicable because congressional intent is apparent from the statute itself. *See Garcia v. United States*, 469 U.S. 70, 75 (1984); *United States v. Turkette*, 452 U.S. 576, 580 (1981); *Howe v. Smith*, 452 U.S. 473, 483 (1981); *Tennessee Valley Authority v. Hill*, 437 U.S. 153, 184 n.29 (1978). In this case, the language of section 526 is plain and unambiguous; legislative intent is easily divined from the statutory words. Importantly, however, as the court of appeals concluded: "[T]his case does not compel [a choice] between the 'plain meaning' of a statute and extrinsic indicia of intent: . . . the circumstances prompting the enactment of Section 526 and its legislative history persuade us that the statute embodies a purpose as sweeping as the terms its drafters employed." *COPIAT v. United States*, 790 F.2d 903, 909 (D.C. Cir. 1986).

1. The statutory language is clear

In attempting to obscure the plain meaning of the statutory language, petitioners are unable to confront a major flaw in their analysis. There can be no dispute

that section 526 is clear, plain, and easy to understand.[8] Importations of goods bearing a registered trademark owned by a U.S. citizen are prohibited unless the trademark owner consents. The drafters employed no equivocal or obtuse language, no difficult to understand words. Thus, the words of section 526 are to be given their usual, ordinary, and common meaning. *Russello v. United States*, 464 U.S. 16, 21 (1983) (quoting *Richards v. United States*, 369 U.S. 1, 9 (1962) ("assumption that the legislative purpose is expressed by the ordinary meaning of the words used")). Only in "rare and exceptional" cases where the literal meaning of a statute would lead to consequences so "absurd" and "gross" as to "shock the general moral or common sense" should the plain language of a statute be rejected. *Crooks v. Harrelson*, 282 U.S. 55, 59-60 (1930).[9]

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[8] Section 526(a) provides:

> Except as provided in subsection (d) of this section, it shall be unlawful to import into the United States any merchandise of foreign manufacture if such merchandise, or the label, sign, print, package, wrapper, or receptacle, bears a trademark owned by a citizen of, or by a corporation or association created or organized within, the United States, and registered in the Patent and Trademark Office by a person domiciled in the United States, . . . and if a copy of the certificate of registration of such trademark is filed with the Secretary of the Treasury, . . . unless written consent of the owner of such trademark is produced at the time of making entry.

19 U.S.C. § 1526(a) (1982).

[9] *Accord Griffin v. Oceanic Contractors*, 458 U.S. 564, 575 (1982) (many laws are "enacted with good intention, [but] when put to the test frequently, and to the surprise of the law maker himself, turn out to be mischievous, absurd or otherwise objectionable"; in such instances "the remedy lies with the law making authority, and not with the Courts"); *United States v. M/V Big Sam*, 693 F.2d 451, 455 (5th Cir. 1982) (*en banc*), *cert. denied*, 462 U.S. 1132 (1983) (while statutes should be interpreted to avoid untenable distinctions and unreasonable results where possible, it is improper "to re-write, in the guise of statutory construction, unambiguous statu-

The Treasury regulations unlawfully restrict the scope of the plain meaning of the statute. There is nothing in section 526 suggesting that only certain U.S. trademark owners may benefit from its protection. To the contrary, section 526 is worded so as to give protection to any U.S. trademark owner. Petitioners cannot, and do not even attempt to, argue that protection of all U.S. trademark owners would be so "gross as to shock the general moral or common sense." Instead, they argue simply that the literal language of section 526 is unreasonable. Plain statutory language may not, however, be ignored on that basis.

2. *A. Bourjois & Co. v. Katzel* supports the plain meaning of section 526

Petitioners deny the broad import of the section 526 language by arguing that (1) section 526 resulted only from congressional disapproval of *A. Bourjois & Co. v. Katzel*, 275 F. 539 (2d Cir. 1921), and therefore (2) section 526 applies only to a factual situation identical to that presented in *Katzel*.

This Court's reversal of the appellate court's *Katzel* decision illustrates the fallacy of petitioners' argument. If petitioners were correct that the legislative reaction to the appellate court decision is limited only to the certain specific facts allegedly at issue, that is, an independent company's claim of fraud, then this Court's *Katzel* opinion would likewise evidence that the principles enunciated therein were also limited to those certain specific facts. Justice Holmes' opinion does not, however, create such a limitation.

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tory language in order to cure what . . . seems to be statutory deficiencies"); *United States v. Shirah*, 253 F.2d 798, 800 (4th Cir. 1958) (when legislature confers benefits upon a statutory class, it is for the legislature, not the courts, to mandate an inquiry whether a particular member of the class deserves such benefits); *see also Tennessee Valley Authority v. Hill*, 437 U.S. 153, 184 n.29 (1978) (only a challenge that result reached is "absurd" necessitates going beyond plain unambiguous statutory language).

In *A. Bourjois & Co. v. Katzel*, 260 U.S. 689 (1923), this Court followed the principle of trademark territoriality in holding that the owner of a French trademark may not introduce goods into U.S. commerce bearing a foreign trademark identical to a U.S. trademark on like goods. In a key conclusion, Justice Holmes stated, "It is the trademark of the plaintiff only in the United States and *indicates in law*, and, it is found, by public understanding, that the goods come from the plaintiff although not made by it." 260 U.S. at 692 (emphasis added). Thus, the Court focused on the independent significance of a trademark under the law of each country. *See Roger & Gallet v Janmarie, Inc.*, 245 F.2d 505, 510 (C.C.P.A. 1957) (because a trademark symbolizes the goodwill developed in each country, trademark rights are enforced under the law of each country; it is "axiomatic" that neither U.S. nor foreign trademark law has any extraterritorial effect). Just as the record in Duracell's ITC case proved, a business can develop separate goodwills to back its products in different countries. As in Duracell's case, investment through production, advertisement, and marketing of locally made goods can create an independent goodwill associated with the trademarked product in each country.

Petitioners, notably K mart, suggest that the *Katzel* holding was limited to " 'contrivance[s] for the purpose of evading the effect of the transfer' of trademark rights." Brief of K mart at 19 (quoting 260 U.S. at 691). Yet K mart omits noting that the Court continued on to say that no such contrivance existed in *Katzel*. The *Katzel* holding was explicitly based on the broader recognition that the ownership of the U.S. trademark "indicates in law" that the goods come from the domestic trademark owner. 260 U.S. at 692.

Such a broad holding was not dependent on the identity of the U.S. trademark owner as an independent company that had purchased trademark rights from a for-

eign manufacturer. Even if, in the words of petitioner 47th Street Photo, *Katzel* applies only when the U.S. trademark owner has "develop[ed] an American identity distinct from that of the foreign trademark owner," Brief of 47th Street Photo at 26, such separate goodwills can and do exist with respect to related companies, as Duracell's case demonstrates.

Although *Katzel's* articulation of the trademark territoriality theory was not a construction of section 526, it illustrates petitioners' erroneous assertion that section 526, as a reaction to the Second Circuit's decision, was limited only to the specific facts presented in that case. Such a limitation is not apparent in this Court's *Katzel* holding which, obviously, resulted from the Second Circuit's decision.

III. THE DEPARTMENT OF TREASURY REGULATIONS MUST BE INVALIDATED

A. Inconsistency With Section 526 Requires Invalidation

Because the Treasury regulations deny protection to U.S. trademark owners entitled to it, these regulations must be invalidated. Deference to an agency's interpretation of a statute is appropriate only where the statute does not make plain the intent of Congress. *Chevron, U.S.A., Inc. v. Natural Resources Defense Council, Inc.*, 467 U.S. 837, 843 (1984); *Federal Election Comm'n v. Democratic Senatorial Campaign Comm.*, 454 U.S. 27, 31-32 (1981). In *Chevron*, this Court stated that it "must reject administrative constructions which are contrary to clear congressional intent." 467 U.S. at 843 n.9. The statute here specifically calls for exclusion by the Customs Service of any good bearing a trademark owned by an American citizen. Congress intended that such importation be prohibited. The Treasury regulations, in contravention of the statute, permit such im-

portation. Consequently, the regulations must be invalidated.

B. Judicial Enforcement Of Section 526 Through Case-By-Case Adjudication Would Be Futile And Burdensome On The Judiciary

The Federal Circuit Court of Appeals in *Vivitar v. United States*, 761 F.2d 1552 (Fed. Cir. 1985), while agreeing that the Treasury regulations do not properly interpret section 526, let the regulations stand as a permissive exercise of Customs' enforcement discretion. 761 F.2d at 1569-70. Yet that has never been Customs' basis for the regulations. "From the start, the Customs Service has regarded the regulations as its interpretation of what the law requires rather than as a decision not to prosecute the letter of the law." *COPIAT v. United States*, 790 F.2d at 918. The *Vivitar* court suggested that a trademark owner, unable to obtain through the Customs Service relief from unlawful importations, could go into federal district court to seek a "private remedy." 761 F.2d at 1570. Such limited relief denies the realities of the gray market.

The experience of Duracell proves that the "private remedy" does not work. Duracell long ago filed section 526 actions in federal district court in New York. The named defendants entered into a consent decree in which they agreed not to import foreign DURACELL batteries. These agreements have proved meaningless as other unauthorized importers move right into the market. Additionally, it is difficult, sometimes impossible, to ascertain who the importers are. In contrast to the *in rem* exclusion of unlawful imports that the Customs Service should automatically provide pursuant to section 526, case-by-case judicial enforcement would be of little value to the U.S. trademark owner who continually would have to file suit after suit in federal district court (that is, if the

trademark owner is able first to discover the importers' identities).

Moreover, this Court can easily see the burden that such enforcement would place on the federal judiciary. Especially in contrast to the statutory scheme which requires automatic Customs exclusion and, thus, no judicial involvement, case-by-case adjudication would result in increased case loads for the district courts as many trademark owners would file suits against even more importers.

IV. POLICY FACTORS SUPPORT INVALIDATION OF THE TREASURY REGULATIONS

The issue before this Court is whether the Treasury regulations correctly interpret section 526 as a matter of law. To the extent petitioners contend that public policy supports the regulations, Duracell submits their basic premises are erroneous.

First and foremost, the record in the Duracell case established that "retail stores sell foreign DURACELL batteries at the same retail price as domestic DURACELL batteries." 225 U.S.P.Q. at 826. Petitioners' argument that the gray market always provides substantial savings to U.S. consumers is incorrect. Instead, Duracell can show and has shown that the unauthorized importers and distributors are pocketing the savings they receive from buying foreign DURACELL batteries in foreign markets.

Second, petitioners fail to recognize that enforcement of section 526 encourages U.S. production and U.S. investment in the goodwill behind the product. Duracell invests over fifty million dollars a year in creating and promoting the goodwill that stands behind the U.S. DURACELL mark. Gray market traders, in importing and distributing foreign DURACELL batteries are able

to free ride[10] on that goodwill at the same time they are endangering the "Americanness" the DURACELL mark symbolizes to the U.S. consumer.

Third, the argument of petitioners and supporting amici that gray market import restrictions are inconsistent with federal antitrust policy is without merit. Petitioner K mart's analysis that such restrictions constitute horizontal market division which per se violates the antitrust laws misreads *United States v. Sealy, Inc.*, 388 U.S. 350, 352-54 (1967) and *Timken Roller Bearing Co. v. United States*, 341 U.S. 593 (1951) both of which involved restraints that were unmistakably horizontal.[11] Further, K mart ignores the application of *Copperweld Corp. v. Independence Tube Corp.*, 467 U.S. 752 (1984), where this Court held that a parent corporation and its wholly-owned subsidiaries cannot conspire under section 1 of the Sherman Act, 15 U.S.C. § 1.

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[10] Petitioner argues that since a purchase somewhere down the chain was originally made from the subsidiary of the trademark owner, no "free ride" exists. But that foreign purchase, even independent of currency fluctuations, would be at a price that took into account the creation of foreign goodwill, *not* the goodwill associated with the U.S. trademark. To the extent that U.S. goodwill was more costly, *e.g.*, higher advertising costs, the gray marketer is free riding by paying only for the foreign goodwill yet selling the product under U.S. goodwill. *See, e.g.*, Miller, "Restricting the Gray Market in Trademarked Goods: Per Se Legality," 76 *Trademark Rep.* 363, 373-75 (1986).

[11] In *Sealy*, the Court expressly observed that the district court had found that analyzing the substance of the transaction, there was no doubt that Sealy was controlled by its licensing competitors and that the territorial arrangements at issue were the product of a horizontal arrangement. 388 U.S. at 352-53. In *Timken Roller Bearing Co.*, the Court concluded that the trademark provisions were a sham such that the territorial allocation applied whether or not products were trademarked and that they were "an aggregation of trade restraints" which violated the Sherman Act. 341 U.S. at 597-98. Accordingly, these decisions are not apposite here.

Petitioner 47th Street Photo is more candid in conceding that any restraint resulting from gray market restrictions is not horizontal, yet is equally as mistaken as K mart in arguing that such restraints violate the antitrust laws. Its assertion that manufacturers are not permitted to establish exclusive selling territories unless consumers benefit, Brief of 47th Street Photo at 43, is inaccurate and, in any event, does not establish that gray market restrictions are unlawful. The case law cited by 47th Street Photo reveals that the relevant inquiry is whether any reduction in intrabrand competition resulting from gray market restraints is balanced by an increase in interbrand competition promoted by such restraints. *Continental T.V., Inc. v. GTE Sylvania, Inc.*, 433 U.S. 36 (1977). In Duracell's case, and we believe in many others, the reduction in intrabrand competition which occurs when the gray market is restrained is more than compensated for by the increase in interbrand competition that occurs when a U.S. trademark owner like Duracell is able to advertise and promote its products without having its goodwill misappropriated and cheapened by free riding gray marketers. *See* 225 U.S.P.Q. at 831; *Continental T.V., Inc. v. GTE Sylvania, Inc.*, 433 U.S. at 51-57 (vertical restraints are aimed at eliminating a "free ride" and are an efficiency justification).[12] Moreover, here Customs does not merely refuse to enforce those gray market restraints that would not result in the promotion of interbrand competition. Instead, it interprets as invalid all gray market restraints, regardless of whether the restraints are pro-competitive

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[12] Furthermore, consumers do not benefit from the gray market's destruction of goodwill which discourages product investment particularly where, as in Duracell's case, the gray market product sells at retail for the same price that the authorized product sells. *See* 225 U.S.P.Q. at 842-44 (additional views of Vice Chairman Liebeler) (exclusion of gray market products protects trademark system which benefits public by encouraging production of goods of high and consistent quality).

or anti-competitive, if the American trademark owner is "related" to the foreign manufacturer of the goods.[13]

In sum, public policy favors neither regulations that are inconsistent with their authorizing statute generally nor the "related parties" exception in the Treasury regulations specifically.

V. THIS COURT SHOULD DETERMINE THE VALIDITY OF THE PRESENT TREASURY REGULATIONS

The government particularly attempts to make much of an alleged ongoing policy review by the Administration. It argues that this Court should not invalidate the regulations because doing so would upset the status quo that later action by the Administration or by Congress could not restore. *See* Brief of the Federal Petitioners at 44-45. Petitioners' reliance on this ongoing policy review is fatuous in two respects.

First, the concrete issue before this Court is whether the Treasury regulations interpreting section 526 are valid. The Customs Service continues to follow those regulations in permitting importations of goods that are unlawful under section 526. The government does not represent that it will change those regulations, only that it is studying the controversy. This Court must decide the issue of law on the record before it and not on conjecture.

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[13] Finally, petitioners' reliance upon comments by the Federal Trade Commission Bureau of Competition (not the Commission itself) and isolated statements in 1971 and 1959 by Assistant Attorneys General of the Antitrust Division are not persuasive especially when viewed in light of the joint amicus brief filed by the Antitrust Division of the Department of Justice *and* the Customs Service in *Bell & Howell: Mamiya Co. v. Masel Supply Co.*, 719 F.2d 42 (2d Cir. 1983), in which the government unequivocally argued that section 526 raised no antitrust concerns and ought to be enforced according to its express terms so that all owners of U.S. trademarks could obtain the protection conferred upon them by statute.

Second, the Administration has consistently hidden behind the facade of a policy review without any indication whatsoever that the review is even nearing fruition. More than two years ago, the President disapproved the ITC's exclusion order in Duracell's case, expressly stating that his Administration was reviewing data "with a view toward formulating a cohesive policy in this area." 50 Fed. Reg. 1,655 (January 11, 1985), *reprinted in* 225 U.S.P.Q. 862. Three years ago, the government solicited data and comments to help it assess the policy underlying the section 526 regulations. *See* 49 Fed. Reg. 21,453 (May 21, 1984). Yet despite the length of time it has had to assess the gray market, the government has done nothing. Nor does it give any indication that it is preparing to take action. The government lacks credibility when it advises this Court to refrain from resolving a present concrete dispute on the basis of hypothetical future developments.

CONCLUSION

The judgment of the court of appeals should be affirmed.

Respectfully submitted,

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